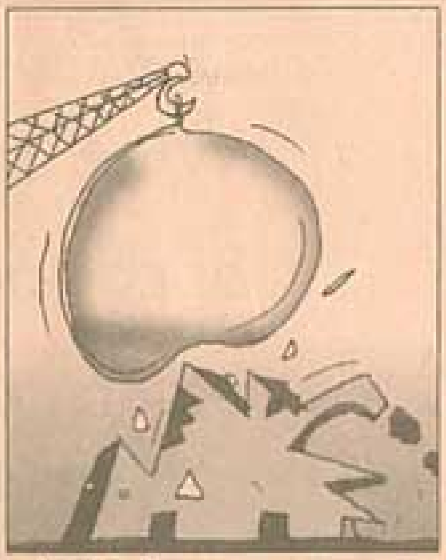
ET 1·9·6·1
THE ECONOMIC TIMES
30 MAY 2000 VOLUME 40 NO 74

Free urea import will hurt indigenous industry

UTTAM GUPTA

Recently, a leading national daily reported that government was contemplating levy of import duty @49 per cent on imported urea under the QR-free regime from April 2001. It mentioned a basic rate of 35 per cent, 10 per cent surcharge and 4 per cent SAD. Put together, effective duty works out to 42.5 per cent (35 x 1.1 + 4). In case, all three elements have been added (this way alone, one reaches 49 per cent), then, that is a computation error! Considering that surcharge and SAD were intended to be temporary imposts, it would be more realistic to consider the duty at 35 per cent only. This, incidentally, is also the peak rate declared for majority of commodities (primarily agricultural and consumer goods) whose imports are freed beginning April 2000. We need to assess whether this rate will provide adequate protection to domestic industry? At prevailing C&F cost of imported urea, i.e., US $105 per tonne (or Rs 4500 at US $1 = Rs 43.5), its farmgate cost is about Rs 5500 per tonne. With duty @35 per cent, this would be about Rs 7000 per tonne.

The reasonable cost of domestic supply varies from unit to unit depending on feedstock, location, vintage, etc. In view of this, taking a weighted average of all units is not logical; all the more so, when variations are wide.



Nevertheless, benchmarking is needed to be able to figure out as to where Indian industry stands visa-vis imports. For a gas based plant, cost of energy (delivered at plant site) is about Rs 600 per million K.cal (actuals for units vary widely depending on location, extent to which gas is supplemented by naphtha/fuel oil, local taxes, etc). Taking 6.5 million K.cal needed for a tonne of urea, energy cost works out to Rs 3900 per tonne. Let other costs (CRC plus conversion charges) be as used by HPC (1998) i.e., about Rs 3700 per tonne (this itself is significantly lower than reasonable actuals due to unrealistic assumptions made by Committee). The ex-factory cost would thus, be Rs 7600 per tonne. Add another about Rs 600 per tonne towards freight and distribution margin, farmgate cost is about Rs 8200 per tonne.

For naphtha based plants, current energy cost is about Rs 1250 per million K.cal (this varies widely from unit to unit depending on location and resultant differential effect of freight and local taxes). Using about 8.5 million K.cal for a tonne of urea, energy cost alone is about Rs 10,600 per tonne. Together with other cost, freight and distribution margin, farmgate cost will be about Rs 13,700 per tonne.

Thus, despite 35 per cent duty, farmgate cost of imported urea will be a whopping Rs 6700 per tonne lower than cost of supply from naphtha based plants and Rs 1200 per tonne lower than gas based plants. Clearly, levy of duty at this rate would be far from preventing impending onslaught on domestic industry under the QR-free regime. At 50-60 per cent, perhaps, gas based plants could be protected. However, naphtha based units would still remain in danger zone.

Under WTO, bound rate of duty on imported urea is yet to be declared. GOI should fix this at a reasonably high level to take care of extreme situations (for instance, in latter part of 1999, C&F price was as low as US $85 per tonne). The actual rate at any point of time can be lower depending on prevailing cost of import vis-a-vis indigenous supply.

Fertilisers being highly energy intensive, the need for protection (or otherwise) and precise rate cannot be de-linked from cost of energy. Quick calculations reveal that if, energy is charged at US $1 per million Btu (price paid by plants in major exporting countries is even lower than this), then, even without any duty, Indian industry can compete with imports.

In view of above, if, the government is inclined to maintain import duty at low levels, then, it should take necessary steps to drastically lower the cost of energy and ensure uniformity in its price to all plants. In case, for whatever reasons, it cannot, then, there is no escape from putting duty at a reasonably high level for ensuring continued viability of domestic industry.

(Dr Gupta is chief economist, The Fertiliser Association of India, New Delhi)